

Message Text

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ACTION ARA-20

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R 022120Z AUG 74

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 7731

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

UNCLAS TEGUCIGALPA 3241

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SUBJ: HONDURAN FINANCIAL DEVELOPMENTS

SUMMARY: THE CENTRAL BANK HAS ANNOUNCED A SERIES OF CREDIT RESTRAINTS SUBSTANTIALLY MODIFYING FINANCIAL OPERATIONS OF COMMERCIAL BANKS AND PROVISION OF CREDIT TO THE PRIVATE SECTOR. RESTRAINT BEING SOUGHT IN VIEW OF THE DROP IN FOREIGN EXCHANGE EARNINGS FROM BASIC HONDURAN EXPORTS AND A SHARP INCREASE IN IMPORTATIONS. END SUMMARY.

1. EFFECTIVE AUGUST 1 THE CENTRAL BANK HAS SOUGHT TO DEVELOP SELECTIVE CONTROL OF CREDIT, DEFEND THE BALANCE OF PAYMENTS, LIMIT FOREIGN BORROWING AND INCREASE REDISCOUNTS FOR SELECTED USES.

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2. COMMERCIAL BANKS BY THE END OF DECEMBER 1974 MUST REDUCE

LINES OF CREDIT FOR COMMERCIAL OPERATIONS TO 25 PER CENT OF TOTAL LOANS; THE PRESENT PERMITTED RATE IS 30 PER CENT. IMPORT CREDITS FOR DURABLE CONSUMER GOODS WILL BE LIMITED BOTH FOR IMPORTS AND CONSUMER CREDIT.

3. SHORT-TERM EXTERNAL BORROWING CANNOT EXCEED THE LEVEL OF JUNE 1974. WITHIN THIS LIMIT THE NEW AUTHORIZATIONS AND ROLL-OVERS WILL BE ONLY FOR THE FINANCING OF EXPORTS AND PRE-EXPORTS AND IN SOME CASES FOR IMPORTATION OF PRIMARY MATERIALS NECESSARY FOR THE PRODUCTION OF ARTICLES OF HIGH PRIORITY FOR THE DEVELOPMENT OF THE COUNTRY. THE CENTRAL BANK WILL CONDITION THE APPROVAL FOR COMMERCIAL BANKS FOR THE EXTERNAL FINANCING OF MEDIUM-AND LONG-TERM LOANS WHICH MAY BE UTILIZED ONLY FOR THE ACQUISITION OF MACHINERY AND EQUIPMENT FOR AGRICULTURE OR INDUSTRY AND IN SPECIAL CASES FOR THE FINANCING OF INTERMEDIATE PRODUCTS FOR THE SAME ENDS. IN NO CASE CAN THESE CREDITS BE USED TO FINANCE THE ACQUISITION OF SPECULATIVE INVENTORY. ALL CREDITS OBTAINED WILL BE MONITORED BY THE CENTRAL BANK. OVERDRAFTS BY COMMERCIAL BANKS WILL NOT BE PERMITTED FOR MORE THAN THREE CONSECUTIVE DAYS. COMMERCIAL BANKS MAY CHARGE A MAXIMUM DIFFERENTIAL OF 2 PER CENT OVER THE COST OF EXTERNAL RESOURCES IN LOANS MADE WITH THESE FUNDS. BANK GUARANTEES ARE SUBJECT TO NEW REQUIREMENTS INCLUDING PRIOR CENTRAL BANK APPROVAL AND CENTRAL BANK EXAMINATION OF THE USE OF SUCH FINANCING.

4. THE CENTRAL BANK IS INCREASING REDISCOUNT FACILITIES FOR CREDITS GRANTED UNDER THIS RESOLUTION.

5. THE CENTRAL BANK ACTION DERIVES FROM A TIGHTENING BALANCE OF PAYMENTS CONDITION. RESERVES HAVE DROPPED FROM \$48 MILLION TO \$44 MILLION IN THE JANUARY TO MAY PERIOD. EXPORTS HAVE DROPPED TO \$120 MILLION FROM THE \$136 MILLION RECORDED IN THE JANUARY TO MAY PERIOD OF 1973. FIGURES ARE NOT AVAILABLE ON IMPORTS BUT IT IS BELIEVED THAT THERE HAS BEEN A SHARP INCREASE IN 1974. EXPORTS, ON THE OTHER HAND, ARE SUFFERING FROM REDUCED LUMBER, COFFEE, AND MEAT PRICES. BANANA EXPORTS HAVE BEEN BADLY AFFECTED BY THE IMPOSITION OF A SURCHARGE.

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6. COMMENT: BELT TIGHTENING ON CREDIT POLICY IS A NECESSARY RESPONSE TO CURRENT ECONOMIC CONDITIONS. FISCAL POLICY, WHICH IS BEING MODIFIED TO MATCH DEVELOPMENT PLAN OBJECTIVES, HAS NOT BEEN ANNOUNCED BUT WILL PROBABLY CONTAIN SERIOUS RESTRAINTS. THE HONDURAN ECONOMY IS SUFFERING FROM A UNIQUELY HIGH RATE OF INFLATION OF APPROXIMATELY 14 PER CENT DURING THE FIRST SIX MONTHS OF 1974. THE HISTORICAL RATE IS CLOSE TO 4 PER CENT. WHAT THE GOVERNMENT TERMS AS "SPECULATIVE MOVEMENTS" SUCH

AS

INVENTORY BUILDING ARE, FROM THE PRIVATE SECTOR SIDE, MERELY
PROTECTIVE ACTIONS UNDER INFLATIONARY CIRCUMSTANCES. INFLATION
AS A PHENOMENA PROVIDES STRONG DISINCENTIVES TO PRODUCTIVE INVESTMENT.

A TIGHTER CREDIT POLICY IS A NECESSARY BUT INSUFFICIENT RESPONSE TO
THESE DISINCENTIVES.

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